TURNING PATENTS INTO A PROFIT CENTER
Managing Intellectual Property
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If, as many believe, skills and knowledge have become the only true source of sustainable long-term competitive advantage, patents have become the preferred mechanism for protecting those skills and knowledge.

Patents can provide important protection to a company and its product line. They provide profit-margin protection by differentiating company products and keeping competitors out. Patents which currently reside on the shelf may also provide a source of important low-cost revenue to the company.

Finally, knowledge of the patent landscape can help direct research and development efforts and prevent problems with competitors. By knowing what your competitors are patenting, you can discern where their product lines are moving, while avoiding the head-on collisions with competitors' patents and costly patent infringement litigation.

Smart companies employ smart intellectual property management strategies. These strategies increase core profits and may spawn significant licensing revenue. At the same time, smart intellectual property strategies provide priceless market intelligence.

PATENTED EXPANSION

A handful of identifiable events have given rise to the increased popularity of patent protection.

First, the Court of Appeals for the Federal Circuit was founded in 1982 and given jurisdiction over all patent appeals nationwide. The immediate result was that the success of patent enforcement litigation skyrocketed.

Prior to the formation of the Federal Circuit, only about one fourth of patent litigation was successful for the patent holder. Following the formation of the Federal Circuit, the patent holder was successful in about 75 percent of cases. This provided increased incentive to obtain and enforce patents for traditional and emerging technologies alike.

Second, patents became available for technologies in which patent protection was previously not sought or granted. In the 1980 U.S. Supreme Court case of Diamond v. Chakarbarty, the Court expanded protection to biotechnology inventions, even those inventions claiming rights in naturally occurring products. The only requirement was that the product be made--or more often, isolated--by a person.

In the 1981 Supreme Court case of Diamond v. Diehr, the Court expanded patent protection to computer software inventions. Patent protection in both computer software and biotechnology is now firmly established.

More recently, in the 1998 case of State Street Bank & Trust v. Signature Financial Group, Inc., the Federal Circuit held that business methods could be patented. In the

State Street case, this related to a method of managing and investing mutual funds, but the number and types of method patent cases is rapidly expanding.

Third, venture capitalists and other inventors have become sophisticated in their knowledge of the importance of patents. If a small or start-up company wants to succeed it must now acquire patents on its technology. In the case of one Bay Area biotech start-up that my firm has represented, it has been interesting to track stock price against success in obtaining patents. Almost without exception, we have noted a sharp increase in the price of the stock with the issuance of each new patent.

MAXIMIZING PATENT PERFORMANCE

Most business managers now realize, at least generally, that patents are essential to the success of the business enterprise. The question then becomes, how can a company's patent portfolio be managed for maximum performance? As one defense industry CEO once told me, without effective management, patents simply become a form of recognition to the guys in the lab; a plaque on the wall. But with effective management, patents can become an important profit center.

The model of effective patent portfolio management is IBM. IBM produces over $1 billion per year in patent licensing revenues. This revenue is essentially pure profit. It is produced with only a relatively small administrative overhead. At the same time, IBM thoroughly protects itself and expands its technological influence, with some 2,756 new patents issued in 1999 alone.

How is it possible to effectively protect your company and at the same time produce a potential revenue stream from your patent portfolio? Perhaps the first necessary step is to obtain a good grasp of what technology you have and the extent and scope of your patent protection. A straightforward method of obtaining this information is to conduct an intellectual property audit. This seems basic, but it is surprising how few companies actually have a good grasp of their intellectual property assets.

EFFECTIVE IP AUDIT MAPPING

During the audit, each of the company's patents should be identified, valued, and matched with a business unit within the company. It is then possible to sort the patents the company already holds. One convenient analytical tool is the "intellectual property (IP) audit map," in which projected business growth in a technology area is plotted on one axis and corporate patent use of company patents along the other.

Using this is plotted technique, companies can separate patents into three distinct classifications: first, core patents that cover technology central to the company and are currently in use; second, those in high growth areas but not currently being used by the company; and third, patents in low growth areas the company does not expect to use.

In the core area, it is vital to maintain a strong patent position. The company may decide to file on various inventions and developments in order to establish a "picket fence" of patent protection around the company's core technologies. Once the audit is completed, the company may locate gaps in its core patent protection that should be filled with

further directed research and development, followed by additional patent filings.

The company may also want to conduct industry-wide patent mapping to identify competitors and others operating in the company's core competency area. It can accomplish this by conducting searches for patents issued in particular technology areas or industry classifications--or simply by searching using the names of competitors and inventors known to the company. This can provide the company with valuable intelligence concerning possible problems that may be encountered in the future and may provide direction for its research and development effort.

Patents that fall within high-growth business areas, but which do not fall within the scope of company expansion plans, are prime candidates for licenses. Once a patent map has been constructed, it is a relatively straightforward process to identify companies working in fields covered by these valuable but non-core patent areas. These companies can be contacted to determine their interest in purchasing a license to these patents. As mentioned above, IBM undertakes an aggressive licensing business, producing $1 billion a year in essentially pure profit. Your company can be successful in this secondary business area as well.

Finally, patents that fall within low potential business areas, which the company does not expect to use, are candidates for abandonment. Patent maintenance can be a costly proposition, especially when a patent has been filed in several foreign countries. Periodic maintenance fees must be paid to keep patents alive, and these fees increase with time. If it is determined that the patent is of little value to the company or others, it may be best to drop the patent and the associated expense. ***iQ***